

COMPLIANCE AUDIT
OF THE
COMMUNITY COLLEGES
ACTIVITIES CLASSIFICATION STRUCTURE

DEPARTMENT OF EDUCATION

July 1, 1996 through June 30, 1997

EXECUTIVE DIGEST

COMMUNITY COLLEGES ACTIVITIES CLASSIFICATION STRUCTURE

INTRODUCTION	This report contains the results of our compliance audit [*] of the Community Colleges Activities Classification Structure for the colleges' fiscal year 1996-97 (July 1, 1996 through June 30, 1997).
AUDIT PURPOSE	This compliance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and was mandated by Act 85, P.A. 1997, the annual appropriations act for community colleges.
BACKGROUND	<p>The activities classification structure (ACS) was developed in response to Section 8, Act 419, P.A. 1978 (a section of the fiscal year 1978-79 appropriations act for community colleges). Uniform data reporting requirements were developed for use in making State budget and appropriation decisions. Act 117, P.A. 1984, provided for a funding formula to be used to determine State aid for each community college. The funding formula is based on ACS information, such as full-time equated students, contact hours, expenditures, and other activity measures.</p> <p>For fiscal year 1996-97, Act 293, P.A. 1996, continued with the reporting requirements as established in Act 117,</p>

^{*} See glossary on page 28 for definition.

P.A. 1984. Act 293 requires the colleges to annually report to the Department of Education (DOE) certain information on ACS forms.

**AUDIT OBJECTIVE
AND CONCLUSION**

Audit Objective: To determine whether the ACS information reported to the DOE on the ACS forms was in accordance with the provisions of the annual appropriations act for community colleges (Act 293, P.A. 1996), the ACS Manual for Michigan Community Colleges, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DOE's annual instructions.

Conclusion: In our opinion, the seven community colleges at which we reviewed the accuracy of selected ACS information were in general compliance with the reporting requirements. However, the community colleges did not accurately report some information and did not retain all supporting documentation for audit (Findings 1 through 11).

These reporting errors were not considered material and may not necessarily have a direct dollar impact on the community colleges' funding. However, it is important for comparative analyses that all community colleges report their enrollment and other ACS data in a consistent manner that adheres to the provisions of the annual appropriations act for community colleges (Act 293, P.A. 1996), the ACS Manual for Michigan Community Colleges, the MUFR, and DOE's annual instructions.

Several of our audit findings pertain to more than one college; therefore, we have included a summary of audit findings by college, as supplemental information, to identify the specific colleges involved.

Also presented as supplemental information is a schedule of other reporting exceptions. These reporting exceptions represent instances of noncompliance that have been determined, after consultation with DOE, to have a minimal, if any, impact on the funding formula and the ACS Databook^{*}.

AUDIT SCOPE

Our audit scope was to examine the financial and other records supporting the activities classification structure information reported by seven community colleges for their fiscal year ended June 30, 1997. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The following community colleges were included in our audit:

Glen Oaks Community College
Grand Rapids Community College
Henry Ford Community College
Macomb Community College
Mid-Michigan Community College
North Central Michigan College
Southwestern Michigan Community College

AGENCY RESPONSES

Our audit includes 11 findings and 11 corresponding recommendations. We discussed our audit findings, along with the other reporting exceptions presented as supplemental information, with the management of each community college. The colleges' responses indicated general concurrence with our findings.

^{*} See glossary on page 28 for definition.

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The Honorable Harry Gast, Chairman
Senate Appropriations Committee
Michigan State Senate
and
The Honorable Morris W. Hood, Jr., Chairman
House Appropriations Committee
Michigan House of Representatives
State Capitol
Lansing, Michigan

Dear Senator Gast and Representative Hood:

This is our report on the compliance audit of the Community Colleges Activities Classification Structure for the colleges' fiscal year 1996-97 (July 1, 1996 through June 30, 1997), required by Act 85, P.A. 1997, the appropriations act for community colleges.

This report contains our executive digest; description of reported data; audit objective, audit scope, and agency responses; comment, findings, and recommendations; a summary of audit findings by college and a schedule of other reporting exceptions, presented as supplemental information; and a glossary of acronyms and terms.

Annual appropriations acts require that the audited agencies develop formal responses within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us by the community colleges.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Reported Data

The activities classification structure (ACS) was developed in response to Section 8, Act 419, P.A. 1978 (a section of the fiscal year 1978-79 appropriations act for community colleges). Uniform data reporting requirements were developed for use in making State budget and appropriation decisions. Act 117, P.A. 1984, provided for a funding formula to be used to determine State aid for each community college. The funding formula is based on ACS information, such as full-time equated students, contact hours, expenditures, and other activity measures.

For fiscal year 1996-97, Act 293, P.A. 1996, continued with the reporting requirements as established in Act 117, P.A. 1984. Act 293 requires the colleges to annually report to the Department of Education (DOE) certain information on ACS forms.

The development of ACS has proven beneficial in that ACS:

1. Assists in the collection of uniform and comparable financial data from the 28 State-supported community colleges.
2. Provides an internal management tool to relate information about resources and activities to the achievement of institutional objectives.
3. Interfaces a State reporting structure with accounting practices and organizational structures common to the community college system.
4. Provides a framework for identifying areas of institutional similarities and differences.
5. Provides a logical basis for determining the gross need of individual colleges and of the total system, which then becomes translated into State appropriations.

DOE is responsible for the collection and analysis of ACS information submitted by the colleges on the various ACS forms. Colleges are to report ACS data in accordance with provisions of the annual appropriations act for community colleges (Act 293, P. A. 1996), the ACS Manual for Michigan Community Colleges, the Manual for Uniform Financial Reporting for Michigan Public Community Colleges (MUFR), and DOE's annual instructions.

Audit Objective, Audit Scope, and Agency Responses

Audit Objective

The audit objective for our compliance audit of the Community Colleges Activities Classification Structure was to determine whether the activities classification structure (ACS) information reported to the Department of Education (DOE) on the ACS forms was in accordance with the provisions of the annual appropriations act for community colleges (Act 293, P.A. 1996), the ACS Manual for Michigan Community Colleges, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DOE's annual instructions.

Audit Scope

Our audit scope was to examine the financial and other records supporting the activities classification structure information reported by seven community colleges for their fiscal year ended June 30, 1997. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The following community colleges were included in our audit:

- Glen Oaks Community College
- Grand Rapids Community College
- Henry Ford Community College
- Macomb Community College
- Mid-Michigan Community College
- North Central Michigan College
- Southwestern Michigan Community College

Agency Responses

Our audit includes 11 findings and 11 corresponding recommendations. We discussed our audit findings, along with the other reporting exceptions presented as supplemental information, with the management of each community college. The colleges' responses indicated general concurrence with our findings.

Annual community college appropriations acts require the principal executive officer of the audited institution to submit a written response to our audit to the House and Senate Appropriations Committees, the House and Senate Fiscal Agencies, the Department of Education, the Auditor General, and the Department of Management and Budget. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

COMMENT, FINDINGS, AND RECOMMENDATIONS

ACCURACY OF REPORTED INFORMATION

COMMENT

Audit Objective: To determine whether the activities classification structure (ACS) information reported to the Department of Education (DOE) on the ACS forms was in accordance with the provisions of the annual appropriations act for community colleges (Act 293, P.A. 1996), the ACS Manual for Michigan Community Colleges, the Manual for Uniform Financial Reporting of Michigan Public Community Colleges (MUFR), and DOE's annual instructions.

Conclusion: In our opinion, the seven community colleges at which we reviewed the accuracy of selected ACS information were in general compliance with the reporting requirements. However, the community colleges did not accurately report some information and did not retain all supporting documentation for audit.

These reporting discrepancies were not considered material and may not necessarily have a direct dollar impact on the community colleges' funding. However, it is important for comparative analyses that all community colleges report their enrollment and other ACS data in a consistent manner that adheres to the provisions of the annual appropriations act for community colleges (Act 293, P. A. 1996), the ACS Manual for Michigan Community Colleges, the MUFR, and DOE's instructions.

Several of our audit findings pertain to more than one college; therefore, we have included a summary of audit findings by college, as supplemental information, to identify the specific colleges involved.

Also presented as supplemental information is a schedule of other reporting exceptions. These reporting exceptions represent issues of noncompliance that have been determined, after consultation with DOE, to have a minimal, if any, impact on the funding formula and the ACS Databook.

FINDING

1. Disclosure of Required Information

Two colleges did not disclose certain information on their class lists as required by the appropriations act. Also, one college did not complete class summaries for each enrollment period during fiscal year 1996-97 as required by the appropriations act.

Act 293, P.A. 1996, requires that class lists and class summaries shall identify clearly by course the number of in-district and out-of-district student credit and contact hours. The class summaries and class lists shall be consistent with each other and shall include the course prefix and number, course title, course credit and contact hours, credit and contact hours generated by each student, and activity classifications consistent with the taxonomy. Our review of class lists and class summaries disclosed:

- a. Glen Oaks Community College did not include the residency classification of all students and the number of in-district and out-of-district student credit and contact hours on its class lists.
- b. North Central Michigan College did not include the course prefix and numbers and the course credit and contact hours on its non-general fund class lists. Also, the college did not complete class summaries for each enrollment period.

Full disclosure of the required information is necessary to clearly identify the number and type of student credit and contact hours which may be used for future funding for these colleges.

RECOMMENDATION

We recommend that the colleges disclose all information required by the appropriations act on their class lists and complete class summaries for each enrollment period.

FINDING

2. Calculation of the Count Date for Credit Hours, Contact Hours, and Student Headcount

Four colleges did not calculate their count dates in accordance with DOE's instructions.

To ensure uniformity in reporting, DOE's instructions require the colleges to report all enrollment data as of the count date. The count date is defined as being one tenth of the total calendar days between and including the first and last days of instruction (including holidays and the final examination day) for both full-length and less than full-length academic period courses. When the one-tenth calculation results in less than one day, the first day of the course offering should be recognized as the count date. Our review of count date calculations and applications disclosed:

- a. Henry Ford Community College used the one-tenth methodology in calculating count dates for its general fund courses. However, an error in the College's computer programming logic resulted in the College calculating various count dates for its non-general fund courses.
- b. Macomb Community College and North Central Michigan College used the end of the semester as their count dates for non-general fund courses.
- c. Southwestern Michigan College used the second day of class as its count date for its non-general fund community service short courses rather than the first day.

RECOMMENDATION

We recommend that the colleges calculate their count dates in accordance with DOE's instructions.

FINDING

3. Student and Course Data Reporting

Two colleges did not comply with the enrollment reporting requirements mandated by the appropriations act and DOE's instructions. The colleges reported enrollment information on student headcount, contact hours, and credit hours by

element, subactivity, and activity forms (ACS 6's) that did not agree with the supporting class lists and class summaries.

The appropriations act and DOE's instructions require the colleges to generate their ACS 6's using class lists and class summaries as of the count date. DOE's instructions also require that the information reported to DOE on the ACS 6 must be consistent with that listed on the class lists and class summaries. Our comparison of the colleges' ACS 6's with supporting documentation disclosed:

- a. Henry Ford Community College and Southwestern Michigan College correctly included students who were "auditing" courses in headcount and contact hour totals; however, the Colleges incorrectly included these students in their credit hour totals.
- b. Henry Ford Community College properly attempted to "purge" certain students from its records. However, the action was taken as of an incorrect date. As a result, the College improperly included some purged students in the ACS 6.
- c. Henry Ford Community College's class lists did not agree with its class summaries.
- d. Southwestern Michigan College improperly included high school students in the non-general fund ACS 6 rather than the general fund ACS 6.

RECOMMENDATION

We recommend that the colleges comply with the enrollment reporting requirements mandated by the appropriations act and DOE's instructions.

FINDING

4. Reporting of High School Student Enrollments

Grand Rapids Community College and North Central Michigan College did not include the credit hours and contact hours for students taking college courses to complete high school graduation requirements in the enrollment reports as required by DOE's instructions.

In the past, colleges could not include contact and credit hours for high school students in the enrollment reports; however, 1996-97 DOE instructions require colleges to include enrollment data generated by these students in the reports.

RECOMMENDATION

We recommend that the colleges include the credit hours and contact hours for students taking college courses to complete high school graduation requirements in the enrollment reports.

FINDING

5. Residency Verification

Glen Oaks Community College did not verify the legal residency of returning students as required by DOE's instructions.

DOE's instructions require that the residency of all new students must be verified at the time of admission. Further, the instructions identify the following three formal methods considered acceptable for verifying the legal residency of returning students:

- a. Require students to verify their residency status in person.
- b. Require a copy of a rent receipt, driver license, etc., to be submitted with tuition payments.
- c. Send out registration confirmations and grade mailings using a "Postmaster Do Not Forward" label on the envelope and place a hold on a student's record when his/her mail is returned. The student must then prove his/her residency before any further registration is allowed.

As a result of not verifying the legal residency of returning students, Glen Oaks Community College's reported headcount and applicable credit hours and contact hours between in-district and out-of-district may be in error. Failure to correctly report student residency affects the tuition deduct portion of the State funding formula and may affect the College's funding.

RECOMMENDATION

We recommend that Glen Oaks Community College verify the legal residency of returning students as required by DOE's instructions.

FINDING

6. Contact Hour Computations and Reporting

Three colleges did not calculate and report contact hours based on DOE's instructions.

DOE's instructions require that a contact hour be based on 50 instructional minutes. Total contact hours for a course are to be calculated by summing the total instructional minutes for a course in the academic period and dividing by 50. The instructions further state that course contact hours may be calculated on a section-by-section basis or all sections of a course may be reported at the same course contact hour value as long as each section's actual course contact hour value is not less than the reported value of that course by more than 5%. Colleges must perform an actual calculation on a random sample of courses to determine the actual contact hour difference. Documentation of this random sample must be maintained for audit purposes. Our review disclosed:

- a. Henry Ford Community College calculated contact hours based on a predetermined number of hours for each credit hour instead of actual instructional minutes.
- b. Macomb Community College and North Central Michigan College calculated contact hours using a standard of 16 contact hours per credit hour and a multiplier of 1.125 and 1.100, respectively, instead of using actual instructional minutes. The multiplier was intended to account for the instructional time provided to students in excess of the 50 minutes per contact hour required by DOE's instructions.

The consistent reporting of contact hours by all colleges is important because the number of contact hours may affect college funding.

RECOMMENDATION

We recommend that the colleges calculate and report contact hours based on DOE's instructions.

FINDING

7. Financial Statement Presentation

Glen Oaks Community College did not capitalize library books in its financial statements.

MUFR requires that colleges capitalize library books in their financial statements.

RECOMMENDATION

We recommend that Glen Oaks Community College capitalize library books in its financial statements.

FINDING

8. Consistency Between ACS Form and Audited Financial Statements

Glen Oaks Community College reported information on its element/subactivity/activity general fund expenditures form (ACS 3) that was not consistent with its audited financial statements.

DOE's instructions state that information on the ACS 3 should agree with corresponding information on the audited financial statements. The instructions also state that transfers are not to be reported on the ACS 3.

Glen Oaks Community College allocated transfers on its ACS 3 which were not allocated in its financial statements.

RECOMMENDATION

We recommend that Glen Oaks Community College report information on its ACS 3 that is consistent with information in its audited financial statements.

FINDING

9. Cost Allocations and Expenditure Reporting

Five colleges did not properly allocate or report some expenditures on their ACS 3's.

The ACS manual, MUFR, DOE's instructions, and the annual appropriations acts provide direction to community colleges on the proper allocation and reporting of expenditures. Our review disclosed:

- a. Glen Oaks, Grand Rapids, Henry Ford, and Mid-Michigan Community Colleges did not properly report capital expenditures on the ACS 3.

Glen Oaks and Grand Rapids Community College did not report library book purchases as capital expenditures as required by DOE's instructions. Instead, the Colleges reported the library book purchases as other expenditures. Glen Oaks, Henry Ford, and Mid-Michigan Community Colleges did not report computer salaries and fringe benefits in the category of "Computer" as required by DOE's instructions. Instead, the Colleges reported the computer salaries and fringe benefits in the category of "Salaries and Fringes."

- b. Mid-Michigan Community College did not allocate computer costs to the various ACS areas that receive computer support. Instead, the College reported the computer costs in "General Administration."
- c. Mid-Michigan Community College did not allocate work-study expenditures to the department or organizational unit to which the service was rendered. Instead, the College reported the work-study expenditures in "Financial Aid."
- d. Glen Oaks Community College and Southwestern Michigan College did not establish an expenditure account to record the difference in tuition rates for students residing out-of-district who are charged in-district rates. Glen Oaks Community College allows students who reside out-of-district to pay in-district rates if the students own property within the district. Southwestern Michigan College allows a student who holds or, in the case of a dependent student, whose parents or guardians hold real taxable property which is in a

community college district contiguous with the Southwestern Michigan College district to pay in-district rates. Although the Colleges are entitled to have such tuition policies, MUFR requires that tuition and fee remissions or exemptions in any form be recorded and reported as expenditures.

Accurate reporting of expenditures is necessary for comparable analyses of expenditures among the 28 community colleges. This information may be used to determine the financial need of the individual colleges in the appropriation process.

RECOMMENDATION

We recommend that the colleges properly allocate and report expenditures on their ACS 3's.

FINDING

10. Reporting of Full-Time Equated (FTE) Positions

Henry Ford Community College did not report FTE positions on the general fund personnel activity measures form (ACS 4) in accordance with the ACS manual.

The ACS manual defines the methods to be used to determine the number of FTE positions.

The College's supporting documentation did not agree with reported FTE data as a result of compilation errors when FTE data was accumulated for the report.

RECOMMENDATION

We recommend that Henry Ford Community College report FTE positions on its ACS 4 in accordance with the ACS manual.

FINDING

11. Property Tax Data

Three colleges did not accurately report or maintain sufficient documentation to support amounts reported on their tuition/State equalized valuation (SEV)/millage data forms (ACS 5's).

The ACS 5 reports information on a college's tuition rates and local financing. Our review of ACS 5 information disclosed:

- a. North Central Michigan College improperly included tax abatement (Tax Increment Financing Authority) amounts on its ACS 5. As a result, the College's SEV was understated.
- b. Glen Oaks and Henry Ford Community Colleges did not maintain sufficient documentation to support amounts reported for SEV on their ACS 5's.

RECOMMENDATION

We recommend that the colleges accurately report and maintain sufficient documentation to support amounts reported on their ACS 5's.

SUPPLEMENTAL INFORMATION

COMMUNITY COLLEGES ACTIVITIES CLASSIFICATION STRUCTURE

Summary of Audit Findings by College

July 1, 1996 through June 30, 1997

Audit Finding	Glen Oaks Community College	Grand Rapids Community College	Henry Ford Community College	Macomb Community College	Mid-Michigan Community College	North Central Michigan College	South-western Michigan College
1a	X						
1b						X	
2a			X				
2b				X		X	
2c							X
3a			X				X
3b			X				
3c			X				
3d							X
4		X				X	
5	X						
6a			X				
6b				X		X	
7	X						
8	X						
9a	X	X	X		X		
9b					X		
9c					X		
9d	X						X
10			X				
11a						X	
11b	X		X				

COMMUNITY COLLEGES ACTIVITIES CLASSIFICATION STRUCTURE

Schedule of Other Reporting Exceptions *

July 1, 1996 through June 30, 1997

ACS 3: Element/Subactivity/Activity General Fund Expenditures

1. Glen Oaks Community College's ACS 3 contained errors attributable to the College not adequately reporting its data. We noted that ACS line item 4.5, Instructional Rental, on the ACS 3 contained salaries and fringe benefits that should have been reported on ACS line item 4.1, Library Services. We also noted that ACS line item 6.2, General Administration, on the ACS 3 contained salaries that should have been reported on ACS line item 6.3, Public Relations. In addition, ACS line item 6.1, Executive Management, on the ACS 3 contained salaries and fringe benefits for various positions that should have been reported on ACS line items 5.1, Student Services; 4.4, Instructional Administration; and 6.2, General Administration.
2. Grand Rapids Community College did not accurately report "Other" operating expenditures at the instructional subactivity level.
3. Henry Ford Community College did not report physical plant "Capital" expenditures on line item 7.0. The College reported these expenditures under the "Capital" column on ACS line item 6.0, Institutional Administration.
4. Henry Ford Community College did not report furniture rental expenditures under the "Other" column. The College reported these expenditures under the "Facility" column.
5. Henry Ford Community College did not report plant supplies on ACS line items 7.2, Maintenance, and 7.3, Custodial Services. The College reported these expenditures on ACS line item 7.4, Energy Services.
6. Mid-Michigan Community College did not report water and sewage expenditures on ACS line item 7.4, Energy Services. The College reported these expenditures on ACS line item 7.2, Maintenance.

7. North Central Michigan College did not report maintenance supply expenditures on ACS line item 7.2, Maintenance. The college reported these expenditures on ACS line item 7.4, Energy Services.
8. Southwestern Michigan College allocated indirect costs for auxiliary services in compliance with ACS instructions; however, the College did not have supporting documentation for the allocation.

ACS 4: General Fund Personnel Activity Measures

1. Grand Rapids Community College did not accurately report FTE's for part-time and overload faculty at the instructional subactivity level and for full-time faculty at the noninstructional activity level. This was because of miscalculations in the College's supporting schedules.
2. Macomb Community College did not accurately report FTE's for full-time faculty at the noninstructional subactivity level. This was because the Dean of Student Services was inappropriately included in ACS line item 4.0, Instructional Support.
3. Mid-Michigan Community College did not accurately report FTE's for full-time faculty at the instructional subactivity level. This was because of a miscalculation in the College's supporting schedules.
4. Mid-Michigan Community College did not include noncontract part-time FTE's in the ACS 4.

ACS 6: Course Enrollment Data by Instructional Element, Subactivity, and Activity

1. Mid-Michigan Community College overstated contact hours for one class. This overstatement was isolated to one student.

ACS 7: Plant and Grounds Expenditures and Activity Measures

1. Glen Oaks Community College understated total energy expenditures by the amount of electricity and gas expenditures allocated to auxiliary activities.
2. Grand Rapids Community College understated the overall gross square footage because of a keypunching error.
3. Henry Ford Community College overstated its General Fund Energy line item by not deducting applicable auxiliary fund allocations.
4. Henry Ford Community College overstated its General Fund Water and Sewage line item by not deducting applicable auxiliary fund allocations.
5. Macomb Community College overstated its Electricity line item because of a posting error.
6. Macomb Community College overstated the Gas line item by the amount of gas expenditures allocated to auxiliary activities.
7. Macomb Community College overstated the General Fund Energy line item by the amount of electricity and gas expenditures allocated to auxiliary activities.
8. Mid-Michigan Community College overstated its General Fund Energy line item because of a miscalculation in the gross square and gross cubic footage.
9. Mid-Michigan Community College understated total energy expenditures by the amount of electricity and gas expenditures allocated to auxiliary services.
10. Southwestern Michigan College overstated its General Fund Energy line item by the amount of electricity, gas, and water expenditures allocated to auxiliary activities.

11. Southwestern Michigan College overstated its overall volume because of a miscalculation of gross cubic feet for one of its buildings.

* This schedule of other reporting exceptions identifies instances of noncompliance that have been determined, after consultation with the Department of Education, to have a minimal, if any, impact on the funding formula and the ACS Databook.

Glossary of Acronyms and Terms

ACS	activities classification structure.
ACS Databook	An annual publication from the Department of Education of enrollment, instruction, fiscal, and other data submitted by Michigan's 28 community colleges.
compliance audit	An audit that is designed to determine whether the entity has adhered to specific compliance requirements.
DOE	Department of Education.
FTE	full-time equated.
MUFR	Manual for Uniform Financial Reporting of Michigan Public Community Colleges.
SEV	State equalized valuation.